



Duchy Trachtenberg

County Council

Montgomery County, Maryland



Management and Fiscal Policy Update

MFP Committee News from the Chair

June 16, 2010

NOTE: Councilmember Duchy Trachtenberg is providing regular updates of the work of the County Council's Management and Fiscal Policy (MFP) Committee as it considers a range of key issues facing the Council and Montgomery County. The purpose of these updates is to provide Montgomery County residents with important information regarding the County's fiscal situation and alternative strategies for addressing our short and long-term fiscal challenges.

June 14, 2010 Meeting

The Management and Fiscal Policy (MFP) Committee, chaired by Councilmember Duchy Trachtenberg, met on Monday, June 14th at 9:45 am. The Committee met for nearly three hours to consider critical fiscal issues facing Montgomery County. Specifically, the MFP Committee discussed the following:

- (1) [FY11-16 Public Services Program and Fiscal Policy \(continued\)](#)
- (2) [Resolution to approve Reserve and selected Fiscal Policies](#)
- (3) [Bill 36-10, Finance - Revenue Stabilization Fund Amendments](#)
- (4) [FY11-16 Public Services Program, Disability Retirement - Imputed Compensation](#)

FY11-16 Public Services Program

Summary: As Chair of the MFP Committee, Councilmember Duchy Trachtenberg led the discussion of a proposed FY11-16 Public Services Program, which is a balanced six-year fiscal plan. For nearly two decades,

the MFP Committee has collaborated with the Office of Management and Budget (OMB) and the Department of Finance to develop and refine fiscal projections. The result has been continuous improvement on how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements, and on how to harmonize the four agencies' fiscal planning methods.

Council Staff represented at the MFP meeting included Steve Farber, Council Staff Director; Robert Drummer, Senior Legislative Attorney and Chuck Sherer, Legislative Analyst. Executive Staff represented at the MFP meeting included Jennifer Barrett, Finance Director; Joseph Beach, Office of Management Director and Alex Espinosa, Operating Budget Coordinator. Nancy Winkler of Public Financial Management, which advises the County on bond-related issues, was also present.

Major Policy Issues: The fiscal plan is a snap shot in time and presents one possible outcome of policy choices regarding taxes, user fees, and spending decisions. One significant benefit of presenting multi-year projections is that the potential future year impacts of current policy decisions can be considered by decision makers when making fiscal decisions in the near term. The Plan is needed as the rating agencies look very closely at Montgomery County Government's steps to get their financial house in order.

Committee Discussion: The Council members discussed the timing of the FY11-16 Public Services Program in terms of the Office of Legislative Oversight (OLO) report on the County's structural deficit due in December 2010. This report will include a focus on the assumptions behind the Fiscal Plan's future year projections, an analysis of the cost drivers associated with the long-term structural deficit, and a review of policy and budget options to address it. Chair Trachtenberg made it clear that this exercise is important, especially in light of current information received from rating agencies in New York regarding the County's AAA bond rating. Moreover, the MFP Committee discussed working closely with OLO to receive information on cost drivers associated with the long-term structural deficit earlier than December. Chair Trachtenberg also stated that there should be a return to results-based budgeting and an emphasis on performance measurements.

Committee Action: The MFP Committee will further review the six-year Public Services Program and expanded reserve issues during an MFP meeting scheduled on June 24th, prior to the Council's review on June 29th.

Reserve Policy

Summary: *A Resolution to Approve Reserve and Selected Fiscal Policies* would establish the goal of a structurally balanced budget where

only recurring revenue is used to fund recurring expenses. The Resolution would also gradually increase the target total reserve over the next 9 years and thereby reduce the revenue available for agency spending. Bill 36-10 would amend the law governing the Revenue Stabilization Fund consistent with the proposed new fiscal policies for the reserve. Moreover, the Bill would modify the method of determining the mandatory annual contribution to the Fund and remove the current cap on the Fund. The MFP Committee explored the Executive's proposal to raise reserves from the current policy level of 6% of resources to 10% of a new base, Adjusted Governmental Revenues, by FY20.

Major Policy Issues: The Committee considered the following issues:

1. Should the Council adopt a policy goal of a structurally balanced budget?
2. Should the Council modify the method of calculating the total reserve?
3. Should the Council modify the amount of the target reserve?
4. Should the total reserve have a maximum size? If so, what should it be?
5. Should the Revenue Stabilization Fund continue to have a maximum size? If so, what should it be?

Committee Discussion: Nancy Winkler, Financial Advisor to the County, prepared a PowerPoint presentation on the "Proposed Fund Balance Policy Resolutions & Bill 36-10: Revenue Stabilization Fund - Amendments." Ms. Winkler stated that all three rating agencies have expressed concerns with the County's reserve balances and budgetary flexibility. As such, it is recommended that the County should institute a multi-year plan to phase in a new policy which establishes a higher unreserved undesignated General Fund Balance and Revenue Stabilization Fund to levels which reflect the County's specific liquidity needs given its cash flow and economically sensitive revenue streams. Further comments focused on the amount of money needed to adequately finance the Rainy Day Fund. The Council members agreed with Executive Staff that there should be no cap on the Rainy Day Fund. Moreover, the Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

Committee Action: There will be a MFP Committee vote on June 24th on the recommendation to remove the cap on the Rainy Day Fund.

Other Issues - Imputed Compensation: Finally, the MFP Committee considered Expedited Bill 35-10, Disability Retirement Imputed Compensation. The speakers for this agenda item included Wes Girling, Office of Human Resources and John Sparks, International Association of Firefighters (IAFF) President. The MFP Committee unanimously recommended passage of the Bill with minor amendments. Bill 35-10 amends the definition of final earnings to extend imputed compensation

beyond FY10 for certain employees who applied for disability retirement benefits under the employees' retirement system by May 18, 2010. In addition, the Bill modifies the qualifications, selection, and operating procedures for the members of the Disability Review Panel.

This MFP meeting was televised on County Cable and will rebroadcast at a later date. To view this session, go to the Montgomery County Council website and click on County Cable Montgomery. The next MFP Committee meeting will be on Thursday, June 17th at 3 pm at the Montgomery County Council Building at 100 Maryland Avenue in Rockville. Topics to be discussed at this meeting are:

- (1) [Resolution to approve Franchise Agreement for Use of Public Right-of-Way: Level 3 Communications, LLC](#)
- (2) [Bill 31-10, Board of Investment Trustees Membership](#)
- (3) [Expedited Bill 30-10, Personnel Equal Benefits Fire and Rescue Employees](#)
- (4) [Executive Regulation 27-09, General Applicability of Personnel Regulations to Employees of Local Fire and Rescue Departments](#)
- (5) [Expedited Bill 41-09, Taxation - Property Tax Credit - Business Incubator](#)

The MFP Committee includes Councilmember Duchy Trachtenberg, Councilmember Valerie Ervin and Councilmember Nancy Navarro. Please contact Laurie Mintzer Edberg, Director of Management and Fiscal Policy in the Trachtenberg Office, at 240-777-7948 (direct dial) or laurie.edberg@montgomerycountymd.gov with any questions or concerns regarding the MFP Committee.